

Message Text

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TAGS: ETRD, IND, EGEN, EEC

SUBJECT: EC RAW MATERIALS POLICY -- EC COMMISSION COMMUNICATIONS
ON STABILIZATION OF EXPORT EARNINGS

REF: A) EC BRUSSELS 4585

B) EC BRUSSELS 1519

C) C BRUSSELS 1129

1. BEGIN SUMMARY: THE EC COMMISSION HAS LABORATED ITS VIEWS
ON AN INTRNATIONAL SYSTEM TO STABILIZE THE EXPORT EARNINGS OF
LDCS. SUCH A SYSTEM WOULD BE PATTERNED ON THE "STABEX" PROVISIONS
OF THE LOME CONVENTION BUT WOULD NOT REPLACE THE LATTR.
(THE EC CONTRIBUTION TO THE LIME STABEX WOULD BE CREDITED
AGAINST THE EC FINANIAL OBLIGATIONS IN THE BROADER SCHEME.)
ALL PROSPEROUS NATIONS SHOULD CONTRIBUTE TO THE SYSTEM. THE
PAPER SUGGESTS THAT THE BENEFICIARIES SHOULD BE THE POOREST
LDCS, AND LEANS TOWARD BROAD COMMOITH COVERAGE. THE PAYMENTS
MADE TO BENEFICIARIES WOULD DEPEND ON BOTH THE
REDUCTION OF EXPORT EARNINGS FROM HISTORIC LEVELS, AND ON THE
DEPNDECE OF A BENEFICIARY ON EXPORTS OF THE COMMODITY IN
QUESTION. THE PAYMENTS WOULD BE REIMBURSABLE EXCEPT, PERHAPS,
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FOR THE POOREST COUNTRIES. IVMF FINANCING FACILITIES SHOULD BE

COMPLEMENTARY TO AN EXPORT EARNINGS STABILIZATION SYSTEM.
END SUMMARY.

2. IN THE EC COMMISSION'S BASIC COMMUNICATION TO THE EC COUNCIL ON RAW MATERIALS AND DEVELOPING COUNTRIES, REPORTED ON IN REF A, THE COMMISSION PROMISED TO SEND THE COUNCIL ADDITIONAL PAPERS DEALING IN DETAILS WITH THE PRINCIPAL PROBLEMS TREATED IN THE COMMUNICATION. ON JUNE 11 THE EC COMMISSION APPROVED TWO SUCH SUPPLEMENTARY COMMUNICATIONS, ONE ON INTERNATIONAL ACTION IN THE DOMAIN OF STABILIZATION OF EXPORT EARNINGS AND THE OTHER ON COMMODITY AGREEMENTS. THIS CABLE SUMMARIZES THE COMMUNICATION ON STABILIZATION OF EXPORT EARNINGS. THE COMMUNICATION ON COMMODITY AGREEMENTS IS BEING REPORTED SEPTEL. BOTH DOCUMENTS, IN FRENCH, ARE BEING AIR POUCHED TO EUR/RPE).

3. THE COMMISSION REAFFIRMS THE POSITION IT TOOK IN THE BASIC RAW MATERIALS PAPER IN MAY (REF A). IT CONSIDERS INTERNATIONAL ACTION AIMED AT STABILIZING THE EXPORT EARNING OF DEVELOPING COUNTRIES IMPORTANT. ALL INDUSTRIALIZED COUNTRIES, STATE TRADING COUNTRIES AND OTHER COUNTRIES WITH SUFFICIENT RESOURCES (PETROLEUM PRODUCERS) SHOULD PARTICIPATE. IT EMPHASIZES THAT AN EXPORT EARNINGS STABILIZATION SCHEME SHOULD FOCUS MOST PARTICULARLY ON THE LEAST DEVELOPED COUNTRIES AND SHOULD NOT INTERFERE WITH THE FREE MARKET, CREATE OBSTACLES TO INTERNATIONAL TRADE, NOR INTERFERE WITH COMMODITY AGREEMENTS.

4. "FIELD OF APPLICATION" - THE FIRST PROBLEMS DEALT WITH IN THE PAPER ARE THOSE OF WHICH COMMODITIES SHOULD BE COVERED AND WHICH COUNTRIES SHOULD BE ELIGIBLE TO BE BENEFICIARIES OF AN INTERNATIONAL EXPORT EARNINGS STABILIZATION SCHEME. THE COMMISSION NOTES CRITERIA THAT MIGHT BE APPLIED, IN SELECTING COMMODITIES, SUCH AS THE IMPORTANCE OF A PARTICULAR COMMODITY IN A COUNTRY'S TOTAL EXPORT EARNINGS, ITS INFLUENCE ON LOCAL EMPLOYMENT, ITS IMPORTANCE FOR THE POOREST COUNTRIES, ETC. ALTHOUGH THE COMMISSION DOES NOT RECOMMEND A SPECIFIC LIST OF PRODUCTS AND COUNTRIES ITS INITIAL "ORIENTATION" IS THAT ONLY THE POOREST COUNTRIES SHOULD BE ELIGIBLE (I.E. LESS THAN \$200-300 PER CAPITA INCOME) AND THE PRODUCTS INCLUDED SHOULD BE THOSE OF GREATEST INTEREST FOR THE POOR COUNTRIES. (WE UNDERSTAND COMMISSIONER CHEYSSON LIMITED OFFICIAL USE

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STRONGLY SUPPORTS THIS ORIENTATION.) THE COMMISSION REJECTS THE UNCTAD LIST OF 19 COMMODITIES FOR SEVERAL REASONS. CERTAIN COMMODITIES ON THE UNCTAD LIST ARE MAINLY PRODUCED BY DEVELOPED COUNTRIES. FOR SOME COMMODITIES THERE ARE, OR COULD BE, COMMODITY AGREEMENTS. SOME MINERALS ARE SUBJECT TO MARKET MANIPULATION BECAUSE OF THE DOMINANCE OF MNCs IN THEIR DEVELOPMENT AND MARKETING. ALTHOUGH NOT STATED, IN THE PAPER, WE HAVE BEEN TOLD THAT THE CURRENT THINKING OF THE

COMMISSION LEANS TOWARD A LONGLIST OF TROPICAL AGRICULTURAL COMMODITIES.

5. THE PAPER STATES THAT THE INTERNATIONAL SCHEME WILL HAVE A DIFFERENT LIST OF PRODUCTS THAN THOSE IN THE LOME CONVENTION STABEX ARRANGEMENT (SEE REFS B AND C FOR BACKGROUND) WHICH WILL CONTINUE SEPARATELY UNDER C RESPONSIBILITY. HOWEVER, ANY EC CONTRIBUTION TO THE FINANCING OF AN INTERNATIONAL SCHEME WOULD HAVE TO TAKE INTO ACCOUNT THE EC'S CONTRIBUTION TO STABEX.

6. "OPERATION OF THE SYSTEM" - WHILE THE OPERATION AND FINANCING OF THE SYSTEM WOULD BE THE RESULT OF NEGOTIATIONS BETWEEN ALL CONCERNED COUNTRIES, THE FOLLOWING ARE POSSIBLE ELEMENTS (WHICH ARE ALSO THE BASIC ELEMENTS OF LOME STABEX SCHEME):

- A) THE SYSTEM WOULD BE ESTABLISHED FOR RENEWABLE FIVE-YEAR PERIODS;
- B) THE TOTAL AMOUNT OF FINANCING FOR FIVE YEARS COULD BE DIVIDED IN ANNUAL INSTALLMENTS;
- C) THERE COULD BE DIRECT PAYMENTS MADE ON THE BASIS OF THE DIFFERENCE BETWEEN A MOVING AVERAGE OF EXPORT EARNINGS DURING A BASE PERIOD AND CURRENT ANNUAL RECEIPTS EXPRESSED IN SDRS. (BEFORE ACTUAL PAYMENTS ARE MADE IT WOULD BE NECESSARY TO VERIFY THAT THE DROP IN EXPORT EARNINGS DID NOT RESULT FROM GOVERNMENT MANIPULATION OF THE SCHEME.)
- D) THE SYSTEM WOULD HAVE TRIGGERS OR THRESHOLDS COVERING DEGREE OF DEPENDENCE ON A PARTICULAR COMMODITY AND THE PERCENTAGE DROP IN EARNINGS NECESSARY TO RESULT IN A PAYMENT;
- E) THE PAYMENT WOULD BE REIMBURSABLE WITHOUT INTEREST CHARGES ALTHOUGH THE POOREST COUNTRIES MAY BE RELIEVED OF THE OBLIGATIONS TO REIMBURSE THE SYSTEM.

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7. THE COMMISSION LEAVES OPEN THE PROBLEMS OF (A) TO WHOM PAYMENTS SHOULD BE MADE (E.G. GOVERNMENTS OR PRODUCER COOPERATIVES) AND (B) IF A NEW ORGANIZATION SHOULD BE ESTABLISHED TO MANAGE THE SYSTEM.

8. "INTERNATIONAL MONETARY FUND" - THE PAPER STRESSES THAT THE PROPOSED INTERNATIONAL SYSTEM TO STABILIZE EXPORT EARNINGS WILL NOT SOLVE ALL OF THE PROBLEMS OF LDC EXPORT EARNINGS. THE IMF COMPENSATORY FINANCING FACILITY, THE "EXTENDED FUND FACILITY" AND THE "OIL FACILITY" ARE CONSIDERED COMPLEMENTARY TO ANY EXPORT EARNINGS STABILIZATION SCHEME AND SHOULD BE BEEFED UP FOR THE LDCS. THE PAPER SUGGESTS THAT THE COMPENSATORY FINANCING FACILITY CAN BE ENLARGED, ACCESS MADE EASIER AND INTEREST RATES REDUCED, AND THAT THE "OIL FACILITY" CAN ALSO BECOME A "RAW MATERIALS FACILITY." GREENWALD

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